

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 19, 2011

H.R. 2433 Veterans Opportunity to Work Act of 2011

As ordered reported by the House Committee on Veterans' Affairs on September 8, 2011

SUMMARY

H.R. 2433 would create or modify programs that provide employment and training services to veterans and servicemembers separating from active duty. The bill also would make changes to programs that offer home loan guarantees, ambulance services, and pension payments to qualifying individuals.

If enacted, CBO estimates that, on net, the bill would decrease direct spending by \$8 million over the 2012-2016 period and by \$291 million over the 2012-2021 period. Because the bill would affect direct spending, pay-as-you-go procedures apply. Enacting H.R. 2433 would not affect revenues.

In addition, CBO estimates that implementing H.R. 2433 would have a discretionary cost of \$8 million over the 2012-2016 period, assuming appropriation of the specified and estimated amounts.

H.R. 2433 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2433 is shown in the following table. The costs of this legislation fall within budget functions 700 (veterans benefits and services) and 050 (national defense).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 2433, THE VETERANS OPPORTUNITY TO WORK ACT OF 2011

		By Fiscal Year, in Millions of Dollars								
	2012	2013	2014	2015	2016	2012- 2016				
СНА	NGES IN DIREC	T SPENDI	NG ^a							
Estimated Budget Authority Estimated Outlays	-20 -20	1,066 1,066	-266 -266	-360 -360	-428 -428	-8 -8				
CHANGES IN SI	PENDING SUBJE	CT TO AP	PROPRIA	TION						
Estimated Authorization Level Estimated Outlays	90 -1	48 69	-41 33	-47 -45	-51 -50	1 8				

Note: Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

This estimate is based on information from the Department of Veterans Affairs (VA), the Department of Labor (DOL), the Department of Defense (DoD), and the National Veterans Training Institute (NVTI). For the purposes of this estimate, CBO assumes the bill will be enacted near the beginning of fiscal year 2012, that the necessary amounts will be appropriated each year, and that outlays will follow historical patterns for similar and existing programs.

Direct Spending

Table 2 summarizes the effects of H.R. 2433 on direct spending for veterans' housing loan guarantees, training and employment assistance, and pension payments. CBO estimates that enacting those provisions would reduce net direct spending for veterans' programs by \$291 million over the 2012-2021 period.

a. In addition to the direct spending effects shown here, enacting H.R. 2433 would have additional effects on direct spending beyond 2016 (see Table 2). CBO estimates that net direct spending would decrease by \$291 million over the 2012-2021 period.

TABLE 2. ESTIMATED CHANGES IN DIRECT SPENDING UNDER H.R. 2433

	Outlays, in Millions of Dollars, by Fiscal Year											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012- 2016	2012- 2021
Guaranteed Loan Provisions	-242	-262	-281	-292	-300	-307	3	2	2	1	-1,377	-1,676
Veterans Retraining Assistance	223	1,330	17	*	0	0	0	0	0	0	1,570	1,570
Pensions for Veterans in Medicaid Nursing Homes	0	0	0	-65	-125	0	0	0	0	0	-190	-190
Loan Guarantees for Surviving Spouses	1	2	2	3	3	4	5	5	5	5	<u>-11</u>	5
Total Changes	-20	1,066	-266	-360	-428	-311	8	7	7	6	-8	-291

Note: * = less than \$500.000.

Guaranteed Loan Provisions. Section 501 would modify several provisions of current law related to VA's authority to guarantee certain mortgages provided to veterans. In total, those changes would decrease direct spending by almost \$1.7 billion over the 2012-2021 period.

Fee Changes. Most significantly, section 501 would postpone scheduled decreases in the fees that VA charges for providing loan guarantees. Under its mortgage guarantee program, VA promises lenders a payment of up to 25 percent of the outstanding loan balance (subject to some limitations on the original loan amount) in the event that the borrower defaults. Such guarantees enable veterans to get better loan terms, such as lower interest rates or smaller down payments. VA charges fees to some borrowers for its guarantee to offset the costs of subsequent defaults. The amount of the fee varies depending on the size of the down payment and whether the borrower has previously used the loan-guarantee benefit.

Under current law, in 2011, veterans who get a mortgage with a VA guarantee and who make no down payment are required to pay an up-front fee equal to 2.15 percent of the principal amount. The fees for veterans who do make down payments range from 1.25 percent to 1.50 percent of the principal amount, depending on the size of the down payment. Under current law, in 2012 and thereafter the fees for such loans are scheduled to decline by roughly half. Veterans who have previously used the loan-guarantee benefit currently pay an up-front fee equal to 3.30 percent of a subsequent guaranteed loan taken in 2011. The rate for that fee will decline to 2.80 percent in 2012, to 2.15 percent in 2013, and

to 1.25 percent in 2014 and any subsequent year. (Veterans of the reserve components pay an additional fee of 0.25 percent for loan guarantees.)

Section 501 would increase the current-law fee rates for the 2012-2017 period to the rates in effect for 2011. Reserve veterans would continue to pay the additional 0.25 percent premium. In 2018 and thereafter, the fees would decline to the rates specified for those years in current law. Eliminating the scheduled fee decline for the 2012-2017 period would increase collections by VA, lowering the subsidy cost of the loan guarantees provided in those years; direct spending would decrease by \$229 million in 2012, and by \$1,684 million over the 2012-2021 period, CBO estimates.¹

Adjustable-Rate, Hybrid-Adjustable-Rate, and Jumbo Mortgages. Section 501 also would extend several expiring authorities to guarantee certain types of mortgages. VA is authorized to provide guarantees for adjustable-rate mortgages and hybrid-adjustable-rate mortgages (that is, mortgages with a rate that is fixed for an initial period and adjustable thereafter) until the end of fiscal year 2012. The bill would extend those authorities through fiscal year 2014.

It also would increase the maximum loan level for which VA can provide a full guarantee. The guaranteed payment from VA is generally capped at 25 percent of the initial loan balance, up to the limit on loan size established by the Federal Home Loan Mortgage Corporation Act, currently a maximum loan amount of \$417,000. (Loans at or below that level are known as conforming loans; loans in excess are called jumbo loans. Exceptions are made to the conforming limit for certain high-cost areas like Hawaii and Alaska.) The Veterans Benefits Improvements Act of 2008 (Public Law 110-389) temporarily increased by 75 percent—to \$729,750—the maximum loan amount eligible for the full guarantee. The limit reverts to the lower level after December 31, 2011. Section 501 would extend for three years the authority to guarantee loans up to that higher limit.

Based on the number of adjustable-rate, hybrid-adjustable-rate, and jumbo mortgages VA has guaranteed in recent years, CBO estimates that VA would guarantee about \$6 billion worth of additional loans a year during the period those expiring authorities would be extended. In conjunction with the fee increases discussed above, those extensions would reduce direct spending by \$13 million in 2012, and increase it by \$8 million over the 2012-2021 period, CBO estimates.

^{1.} Under the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. Such subsidy costs are calculated by discounting those expected cash flows using the rate on Treasury securities of comparable maturity. The resulting estimated subsidy costs are recorded in the budget when the loans are disbursed.

Veterans Retraining Assistance. Section 101 would provide up to 12 months of retraining assistance to no more than 100,000 unemployed veterans that enter education or training programs at community colleges or technical schools to prepare them for employment in an occupational field that is determined by DOL to have significant employment opportunities. The monthly amount of assistance payable to participating veterans would equal the maximum monthly amount of basic assistance payable under the Montgomery G.I. Bill. For 2011, that rate is \$1,426 per month. To qualify for the retraining assistance, veterans must be:

- Unemployed;
- At least 35, but not more than 60 years of age;
- Discharged from active-duty service under honorable conditions; and
- Ineligible to receive any other educational assistance from VA.

Of the total number of veterans that qualify for retraining assistance, only 45,000 may enter the retraining program in fiscal year 2012 and only 55,000 may enter the program between October 1, 2012, and March 31, 2014. Based on information from DOL, CBO estimates that those caps will quickly be reached and that each participating veteran would, on average, receive about \$15,500 in assistance. Over the 2012-2014 period, CBO estimates that providing retraining assistance to those veterans would increase direct spending by about \$1.5 billion, with most of that cost falling in fiscal year 2013.

Of the 100,000 unemployed veterans expected to participate in the retraining program, we project that nearly half also would apply for, and be eligible to participate in, the Federal Pell Grant and Federal Student Loan Programs funded by the U.S. Department of Education. While the bulk of funding for Pell grants is discretionary (see discussion below under the spending subject to appropriation estimate for section 101), CBO estimates that, if enacted, section 101 would increase direct spending by \$21 million over the 2012-2015 period for the mandatory portion of the Pell Grant program. The bill also would have a negligible impact on direct spending for student loans.

Pensions for Veterans in Medicaid Nursing Homes. Section 507 would extend from May 31, 2015, to May 31, 2016, the expiration date of a provision of current law that sets a \$90 per month limit on pensions paid to any veteran without a spouse or child, or to any survivor of a veteran, who is receiving Medicaid coverage in a Medicaid-approved nursing home. The law also allows the beneficiary to retain the pension instead of having to use it to defray nursing home costs. Using data provided by VA, CBO estimates that in 2012 about 15,000 veterans and 19,000 survivors will be affected by this provision and that the average savings to VA will total about \$18,600 per veteran and \$11,600 per survivor. Extrapolating from this estimate to account for mortality and new nursing home patients, CBO estimates the provision would save VA \$490 million over the 2015-2016 period. Higher Medicaid payments to nursing homes would offset some of those savings. We

estimate that those costs would total about \$300 million over the 2015-2016 period, resulting in a net savings of \$190 million over the period.

Loan Guarantees for Surviving Spouses. Section 502 would make the surviving spouses of certain totally disabled veterans eligible for the mortgage guarantee benefit. Under current law, surviving spouses of veterans who die from a service-connected disability may get a loan with a VA guarantee; spouses of veterans whose disability was not related to their service are ineligible. The bill would authorize VA to guarantee loans to surviving spouses of veterans with disabilities that were not service-connected if the veteran had been continuously and completely disabled for 10 years preceding death, completely disabled for five years from the date of discharge, or completely disabled for one year if they had also been held as a prisoner of war and died after September 30, 1999. CBO estimates that VA would guarantee few such loans initially, but that over time, the number of additional loans it would guarantee would reach about 2,500 a year. Those additional loans—taking into account the fee structure specified in section 501—would yield a net increase in direct spending of \$5 million over the 2012-2021 period, CBO estimates.

Spending Subject to Appropriation

H.R. 2433 would limit reimbursement to organizations that provide ambulance services to veterans and modify programs that provide employment and training services to veterans and servicemembers separating from active duty. If enacted, CBO estimates that, on net, the bill would have a discretionary cost of \$8 million over the 2012-2016 period, assuming appropriation of the specified and estimated amounts (see Table 3).

Reimbursement for Ambulance Services. Section 504 would allow VA to pay the provider of ambulance services the lesser of the actual charge or the amount determined by the Medicare fee schedule for such services. Under current law, VA does not have a standard fee for ambulance services; rather the department reimburses the transportation costs for certain veterans based upon the "actual necessary expense" as submitted by the provider. CBO expects that paying Medicare rates for ambulance services would lower such costs by roughly 20 percent (comparable to the difference between Medicare Part B physician payment rates and those of the private sector). On that basis, CBO estimates that using the Medicare fee schedule would reduce spending for ambulance services by \$246 million over the 2012-2016 period, assuming future appropriations are reduced accordingly.

TABLE 3. ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 2433

	By Fiscal Year, in Millions of Dollars								
	2012	2013	2014	2015	2016	2012- 2016			
Reimbursement for Ambulance Services									
Estimated Authorization Level	-45	-48	-51	-53	-56	-253			
Estimated Outlays	-41	-47	-50	-53	-55	-246			
Veterans Retraining Assistance									
Estimated Authorization Level	76	91	5	0	0	172			
Estimated Outlays	27	80	64	1	0	172			
Homeless Veterans Reintegration Program									
Authorization Level	50	0	0	0	0	50			
Estimated Outlays	4	31	14	1	0	50			
Transition Assistance Program (TAP) Outcomes									
Estimated Authorization Level	2	2	3	3	3	14			
Estimated Outlays	2	2	3	3	3	14			
Mandatory Participation in TAP									
Estimated Authorization Level	2	2	2	2	2	10			
Estimated Outlays	2	2	2	2	2	10			
Reports, Studies, and Audits									
Estimated Authorization Level	5	1	*	1	*	7			
Estimated Outlays	5	1	*	1	*	7			
Credentialing and Licensure									
Authorization Level	*	*	*	0	0	1			
Estimated Outlays	*	*	*	*	*	1			
Total Changes									
Estimated Authorization Level	90	48	-41	-47	-51	1			
Estimated Outlays	-1	69	33	-45	-50	8			

Notes: * = less than \$500,000.

Components may not sum to totals because of rounding.

Veterans Retraining Assistance. In addition to the direct spending effects estimated for section 101, CBO estimates that implementing this provision would cost \$172 million over the 2012-2016 period, assuming appropriation of the estimated amounts.

Personnel and Information Technology. Based on information from VA, CBO estimates that about 60 full-time permanent employees and about 70 temporary employees would be required to review and process all incoming applications for retraining assistance. An information technology (IT) system also would need to be created to manage those applications once approved. Hiring those employees and developing and maintaining the IT system would cost \$22 million and about \$2 million, respectively, over the 2012-2016 period, CBO estimates.

Pell Grant Program. As discussed in the direct spending estimate for section 101, CBO projects that nearly half of the 100,000 unemployed veterans expected to participate in the retraining program would apply for, and be eligible to participate in, the Pell Grant program. If enacted, section 101 would increase discretionary costs for Pell grants by \$148 million over the 2012-2016 period, CBO estimates.

Homeless Veterans Reintegration Program (HVRP). Section 503 would extend the HVRP through fiscal year 2012, authorizing \$50 million for DOL to provide grants to agencies and organizations that provide job placement, training, and vocational counseling to homeless veterans. Under current law, the authorization for this program will expire at the end of fiscal year 2011. CBO estimates that implementing this section would cost \$50 million over the 2012-2016 period, assuming appropriation of the authorized amount.

Transition Assistance Program (TAP) Outcomes. Section 204 would require DOL and DoD to develop a joint method to assess certain outcomes of every TAP participant. Specifically, DOL and DoD would have to be able to determine the following for each TAP participant:

- The length of the period of unemployment following separation from active-duty service.
- The beginning salary paid for the first job obtained following separation, and
- The number of months of school or training attended during the first 12 months following separation.

Based on information from DOL and DoD, and assuming implementation of section 202 (see discussion below under "Mandatory Participation in TAP"), CBO estimates that DOL and DoD would need to contact about 170,000 veterans each year. CBO estimates that it would cost \$12 million to hire the additional staff and about \$2 million to develop and maintain the IT system needed to conduct this outreach over the 2012-2016 period, assuming appropriation of the estimated amounts.

Mandatory Participation in TAP. Under current law, separating servicemembers are not required to participate in the employment and job training workshops provided by DOL as

an element of TAP. Section 202 would require that all servicemembers separating from active duty participate in those workshops unless they fall under one of these categories:

- In pay grades E-8 and above or O-6 and above,
- Prevented from attending due to an urgent operational requirement, or
- Accepted to an education program or already obtained post-service employment.

Under current law, DOL provides employment and job training services to an average of 130,000 separating servicemembers through about 4,100 employment workshops per year. Based on information from DOL and DoD, CBO estimates that under section 202 an additional 36,000 individuals would be required to attend those workshops each year and that DOL would have to hold about 1,100 additional workshops annually to accommodate the increased attendance. Based on the cost of current workshops, CBO estimates that implementing section 202 would cost \$10 million over the 2012-2016 period, assuming appropriation of the estimated amounts.

Reports, Studies, and Audits. H.R. 2433 contains several provisions that would require the Comptroller General and the Secretaries of Labor, Defense, and Veterans Affairs to complete, or contract with appropriate entities to complete, various reports, studies, audits, and program reviews. Sections 302 and 303 also would expand existing reporting requirements. If implemented, CBO estimates that those efforts, collectively, would cost \$7 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

Credentialing and Licensure. Section 301 would continue a demonstration project on credentialing and licensure of veterans through September 30, 2014, and authorize the use of up to \$180,000 each year for that purpose. The authority to run that project ended September 30, 2009. If implemented, CBO estimates that continuing that demonstration project would cost about \$1 million over the 2012-2016 period, assuming appropriation of the necessary amounts.

Testing of National Veterans Training Institute Course Participants. NVTI was created to provide training to disabled veterans' outreach program specialists, local veterans' employment representatives, and other personnel that provide employment services to veterans. Section 304 would require that individuals receiving training at NVTI be given a final examination at the end of each training course and that the results of those examinations be provided to the entity that sponsored the training. Under current law, no such testing is required. Based on information from NVTI, CBO estimates that administering those exams would cost less than \$500,000 over the 2012-2016 period, assuming the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2433 as ordered reported by the House Committee on Veterans' Affairs on September 8, 2011

	By Fiscal Year, in Millions of Dollars												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011- 2016	2011- 2021
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	-20	1,066	-266	-360	-428	-311	8	7	7	6	-8	-291

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2433 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATES

On July 7, 2011, CBO transmitted a cost estimate for S. 951, the Hiring Heroes Act of 2011, as ordered reported by the Senate Committee on Veterans' Affairs on June 29, 2011. Sections 6 and 13 of that bill are similar to sections 202 and 301 in H.R. 2433, respectively. The differences in the estimated costs reflect differences in the proposals.

On August 30, 2011, CBO transmitted a cost estimate for S. 914, the Veterans Programs Improvements Act of 2011, as ordered reported by the Senate Committee on Veterans' Affairs on June 29, 2011. Sections 108 and 206 of that bill are similar to sections 504 and 503 in H.R. 2433, respectively, and their estimated costs are the same.

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